

"A man is  
great by  
deeds, not by  
birth"

-Chanakya

Welcome to IIMK



INDIAN INSTITUTE OF MANAGEMENT KOZHIKODE



Working Paper

**IIMK/WPS/376/FIN/2020/02**

APRIL 2020

**THE ECONOMIC SIGNIFICANCE OF POLITICAL CONNECTIONS:  
EVIDENCE FROM INDIAN PARLIAMENTARY ELECTIONS**

**Avinash Ghalke<sup>1</sup>**

**Ram Kumar Kakani<sup>2</sup>**

---

<sup>1</sup> Associate Professor, Institute of Management and Technology (IMT), Nagpur, India,  
Email: aghalke@imtnag.ac.in

<sup>2</sup> Professor and Head (Governance Center), Finance, Accounting and Control Area, Indian Institute of Management - Kozhikode, IIMK Campus P.O, Kerala 673570, Email: ramkumar@iimk.ac.in

# **The economic significance of political connections: Evidence from Indian Parliamentary elections**

Avinash Ghalke & Ram Kumar Kakani

## **Abstract**

*It is fundamental for a corporate with an agenda of long-term wealth creation to manage political relations in as efficient a manner as possible. This paper creates another measure of political proximity for firms based on their asset price movements around the parliamentary election results. It uses this political connectedness measure over a range of event windows on 54 large firms chosen from Indian stock markets to analyze the process of asset-price adjustment. We find that firms in regulated sectors requiring government interventions witness abnormal returns around the election results day. These abnormal returns persist for a longer period when the elections reveal no clear winner. The nature of the abnormal returns depends on the perceived relationship shared between firm managers and winning political coalition. This paper adds to the existing literature by using a novel methodology and a country context with varying ruling coalitions over a broader range of election event windows to capture the dynamic nature of the firms' political connectedness. In the process, our understanding of ruling coalition-strength induced business uncertainties for corporates improves. Our results also show that only a select few firms are capable of adapting themselves to changing powers in a vibrant democracy.*

## **Keywords**

Corporate-Political Alliances, Elections, Financial Markets, Political Connectedness, Political Uncertainty, Stock Market Performance

Research Office

Indian Institute of Management Kozhikode

IIMK Campus P. O.,

Kozhikode, Kerala, India,

PIN - 673 570

Phone: **+91-495-2809238**

Email: [research@iimk.ac.in](mailto:research@iimk.ac.in)

Web: <https://iimk.ac.in/faculty/publicationmenu.php>

